

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes  
Bill Leonard, Member  
State Board of Equalization*

*May 2, 2005*

## **QUOTE OF THE WEEK**

*"The Declaration of Independence, the words that launched our nation -- 1,300 words. The Bible, the word of God -- 773,000 words. The Tax Code, the words of politicians -- 7,000,000 words -- and growing!" --- Steve Forbes (1947- ) Publisher of Forbes Magazine*

## **UNDER THE DOME**

### **\*\*\*Judgement Week for the Terminator\*\*\***

This week will be critical for Governor Schwarzenegger and Republicans of all stripes are watching his actions. Friday is the deadline for turning in signatures for initiatives with the hope of making a ballot this November. The Governor has been pursuing several reform measures and to make sure legislators took him seriously, he immediately began collecting signatures on several initiatives. The plan was that while signatures were being gathered the liberal legislators might have an incentive to negotiate. This has not happened. In fact, given the backpedaling on his reforms and the rumors of difficulties gathering signatures, the liberals in the legislature are now frank in their admission to simply wait out the initiative process.

The problem for the Governor is twofold. Under the law, once circulation of petitions has begun, they cannot be altered. So, if the Governor is persuaded to tinker with his reforms, those change will not be reflected in the initiatives, leaving him with the unenviable situation of possibly campaigning for a reform with language that he no longer supports. The second problem is that if the initiative committees decide to turn in their signatures to be counted, and if the measures qualify, then the proposal cannot be removed from the next statewide ballot. After this week if the petitions are turned in and qualified, any new agreements with the legislature would now have to include a provision that the Governor will campaign against his own ballot measure. Again, an unpleasant outcome for him.

Consider redistricting reform. Months ago, the Governor spoke passionately about the need to bring objectivity and fairness to the process of drawing legislative and congressional district boundaries. He demanded that change immediately and the

initiative was written to be effective for next year's elections. Last week he changed his tune, saying that perhaps the new system should not kick in until after the next census, and the Democratic legislative leaders responded with favorable comments that they might agree to this. That change has led to speculation that the Governor will oppose turning in the signatures that his troops have collected to put that measure on the ballot. When Friday arrives and signatures have to be submitted, judgements will be made. Can the Governor control the various initiative committees' decisions? Does the Governor really want this measure on the ballot if he thinks he can make a deal with the legislature? If the petitions are turned in, will the Governor decide against calling a special election, thus putting all these issues over until June of 2006?

### **\*\*\*What the U.S. Senate Could Learn from California\*\*\***

To most Americans, the U.S. Senate debate over the use of filibusters on judicial nominees is a non-issue. I think part of the reason for that is the media's poor explanation of the situation. If you read just the mainstream press, you would think that blocking a judicial nominee whom the majority supports but whom you dislike was one of the Ten Commandments. Actually, the first judicial filibuster did not occur until 1949 and was used successfully for the first time just a few short years ago. What is really silly about the whole issue is that the problem could be solved if the U.S. Senate simply adopted some of the common sense rules that state legislatures live by every day. There is so little about California government that can be held up as an example to emulate, but this is one of the bright spots. In the State Assembly, a simple majority vote is needed to close debate on any issue. Each member is limited to speaking for five minutes. If anyone wants to speak a second time on an issue, or exceed his or her five minutes, the body must agree to that unanimously. Our state legislature certainly has its share of problems, but at least we do not resort to childish tactics like reading from the phone book to block straight-up votes on nominees.

## **MONEY MATTERS**

### **\*\*\*Will the Last Taxpayer Pick Up the Tab, Please?\*\*\***

Another brilliant article in last week's Wall Street Journal, "Who Pays What" demonstrates an astonishing fact. Even after the Bush tax cuts, our federal tax system has become much more hyper-progressive than it was 25 years ago. According to a joint study by representatives from IRS and Ernst and Young, over the period from 1979-1999, the richest 0.1% of all taxpayers saw their overall tax share double to 11.05% from 5.06%, including Social Security payroll taxes. The top 20% of all earners saw their share of the tax burden rise from 58.28% to 68.17% -- 67.47% at 2003 rates. Meanwhile, the bottom 20% of earners paid only a tiny share in 1979. They now pay half of what they did back then, because of the Reagan and Bush cuts! In 1979, the bottom 20% of earners paid 1.22% of the total taxes, including payroll taxes. In 1999, they paid only .63% -- .65% in 2003 rates. I agree with the WSJ, as we talk about Social Security reform, our tax system is not fair across all income groups.

### **\*\*\*Tax Tips for Nonprofits\*\*\***

None of us want to pay our own money for a back tax bill with penalties and interest, but we would be upset if some of our hard-earned money that we had donated to a worthy nonprofit or religious organization had to go to the BoE because that organization did not follow tax laws. I have found far too many nonprofit executive directors and board members who say, "But my nonprofit is tax-exempt." In some cases they are correct, but in many cases that tax exemption does not apply to many common taxes, including the sales and use tax. For example, if your charity holds a silent auction, or sells tee-shirts, or hosts certain kinds of fundraising dinners, it owes sales tax. Some churches run afoul of the property tax exemption rules by using the property inappropriately.

I want to help nonprofit groups and faith-based organizations understand and obey tax laws. To that end, I am sponsoring several seminars to help charities understand tax laws and what their obligations are. I will be hosting the events in Ventura on May 5, Folsom on May 12, Santa Clarita on June 2, and Bakersfield on June 16. For more information on these events or to register, see <http://www.boe.ca.gov/sutax/nonprofitsched.htm>. If you are not able to attend but would like the BoE publications on this subject, send me an email at [bill.leonard@boe.ca.gov](mailto:bill.leonard@boe.ca.gov).

## **MISCELLANY**

### **\*\*\*A Good Read\*\*\***

Continuing the theme of recommending some common sense books about economic issues today I suggest you take a look at the writings of Andrew Tobias. His most famous work is "The Only Investment Guide You'll Ever Need." He wrote it because he was tired of repeating the same advice when everyone asked him for investment advice. He originally wrote this in the 1970s, but has updated it several times since. His practical, straightforward advice is as accurate today as ever and will set anyone on the right path of handling investments.

## **BOE AND LEGISLATIVE DATES**

**May 5, 2005** --- Tax seminar for Nonprofit and Tax Exempt Organizations in Ventura.

**May 12, 2005** --- Tax seminar for Nonprofit and Tax Exempt Organizations in Folsom.

**May 20, 2005** --- Last day for Legislative policy committees to meet prior to June 6.

**May 24-25, 2005** --- BoE meets in Sacramento.

**May 30, 2005** --- Memorial Day.

**June 2, 2005** --- Tax seminar for Nonprofit and Tax Exempt Organizations in Santa Clarita.

**June 15, 2005** --- Budget bill must be passed by midnight.

**June 16, 2005** --- Tax seminar for Nonprofit and Tax Exempt Organizations in Bakersfield.

## **NOTABLE DATES/ HISTORY**

**May 2, 1945** --- Berlin surrendered to Russian troops during WWII.

**May 3, 1802** --- Washington, D.C. incorporated as a city.

**May 3, 1898** --- Camp Merriman was established at the Presidio (San Francisco).

**May 3, 1921** --- West Virginia imposed the first state sales tax.

**May 3, 1963** --- Martin Luther King Jr. delivered his "I have a dream" speech.

**May 3, 1979** --- Margaret Thatcher became the first female Prime Minister of Great Britain.

**May 4, 1811** --- Harriet Beecher Stowe, author of "Uncle Tom's Cabin," was born.

**May 4, 1922** --- KNX-AM in Los Angeles began radio transmissions

**May 4, 1932** --- Mobster Al Capone entered the Atlanta federal penitentiary to begin serving a term for income tax evasion.

**May 4, 1946** --- Five died in a two-day riot at Alcatraz prison in San Francisco Bay.

**May 5, 1956** --- Jim Bailey ran the mile in a record 3:58.6 in Los Angeles, CA.

**May 6, 1851** --- The San Francisco Chamber of Commerce began.

**May 7, 1789** --- The first inaugural ball was held (for George Washington in New York, NY).

**May 7, 1982** --- A federal jury ruled that the NFL violated antitrust laws in preventing the Oakland Raiders from moving to Los Angeles.

**May 8, 1954** --- The first shot-put over 60' (18.29 meter) was made by Parry O'Brien, Los Angeles, CA.

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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